



Ref. A086/72

PRIME MINISTER

Local Government Finance Studies: Draft Green Paper

~~FLAG A~~ — C(86) 1

BACKGROUND

In October 1984 the Cabinet accepted the view of the then Secretary of State for the Environment that the present local government finance system was suffering severe strains and that present policies could not hold the position very far into the life of the next Parliament. They therefore agreed that he should set in hand a study to identify the best way forward. The study was announced at the 1984 Party Conference.

(CC(84) 32nd Conclusions, Minute 7).

2. Since then the present Secretary of State for the Environment has developed proposals for a fundamental reform of the local government finance system. These have been refined in discussion with the Ministerial Sub-Committee on Local Government Finance (E(LF)). Attached to C(86) 1 is the draft of the consultative Green Paper setting out the proposals agreed by E(LF), which it is proposed to publish on 28 January.

3. The main thrust of the proposals is to rely to a greater extent on local accountability. To this end local authorities will lose their power to raise revenue without limit from non-domestic ratepayers, and the amount of Exchequer grant will be fixed. The whole of the burden of any marginal increase in expenditure, and conversely the benefit of any reduction, will therefore in future fall wholly on domestic local tax payers. A community charge will be introduced and will progressively replace domestic rates, so that all adults will bear their share of the cost of local authority services, not just occupiers.

MAIN ISSUE

4. The main issue is to endorse in general terms the draft Green Paper as a basis for consultation.

5. The proposals have been subject to extensive discussion in E(LF). They have been carefully constructed so that the impact between areas and on different household types has been judged to be politically acceptable. The Secretary of State for the Environment will no doubt emphasise that it will not be possible at this stage to seek to modify any particular part of the package without reopening the whole.

The Community Charge

6. The proposal likely to attract the greatest public interest - and the fiercest political controversy - is that to replace domestic rates with a community charge. The Green Paper (paragraph 3.41) indicates that the Government expect domestic rates to have been phased out completely within a decade. You will want the Cabinet to endorse the principle underlying the new tax - that all adults will pay - and to recognise that new systems of registration and enforcement will be needed. You will also want them to endorse the commitment that rates should be totally eliminated at the end of the transitional period.

The Safety Net Grant

7. E(LF) agreed to a 'safety net grant' to prevent the very large increases in domestic tax bills which would result from the removal of resource equalisation. The safety net grant will prevent transfers of resources between local authority areas at the outset, and so (at least initially) will perpetuate the present cross subsidy from the south to the north. But, as has been pointed out by the Secretary of State for Education and Science and others, the safety net grant will perpetuate some of the unfairness of the present arrangements, and in particular will blur the relationship between local authority spending and the level of the community charge. The community charge will be



higher in the south than in the north for an equivalent level of service so long as the safety net is there. The Secretary of State for the Environment has proposed in a letter dated 3 January to the Secretary of State for Education and Science that the Green Paper should keep open all the options about the rate at which the safety net grant might be removed. He proposes that the Green Paper should make it clear that the grant will not be increased in cash terms, so that at the very least it will wither on the vine, but that there will be a review once the effects of the new system are clear. Subject to minor drafting points, the Secretary of State for Education and Science is content with this, as will be the other members of E(LF).

8. The Secretary of State for Education and Science may refer to this, but I suggest that there is no need for this complex issue to be discussed in Cabinet: there is probably agreement among E(LF) Ministers about the desirability in principle of moving to a system without the safety net grant, but there are complex technical problems as well as the politics of the north/south issue, and it is not necessary for the Green Paper to be explicit on how or at what pace this is to be achieved.

Scotland

9. The Green Paper (paragraph 8.48) represents the conclusion of E(LF) that it would be acceptable to legislate to introduce the community charge in Scotland in advance of reform in England and Wales. The Cabinet will wish to note that the Secretary of State for Scotland regards this as a political imperative, although it is not without political and practical difficulties. But they should recognise that to introduce legislation in the 1986-87 Parliamentary session, the Secretary of State for Scotland will need to complete his consultation by the end of April, ie in three months rather than the nine months being allowed for England and Wales. (As presently drafted, the date proposed for Welsh consultation is a compromise between those



for England and Scotland, and this will need to be tidied up). The Cabinet will need to consider whether it is defensible to impose a tighter timetable in Scotland, given that the fundamental issues are identical north and south of the border and many organisations - for example the CBI - would normally respond on a Great Britain basis. There must be a risk that allowing only a short period for consultation in Scotland would prejudice the success of the consultative exercise.

10. There is a further difficulty in Scotland, of which you should be aware, although it should not require discussion at this meeting. This is that in E(LF) the Secretary of State for Scotland argued for fixing the Scottish non-domestic rate at the same level as in England (on the grounds of equity to industry). This would, however, lead to a shortfall in yield of at least £250 million, which would either have to be met by the Exchequer, by English or Welsh ratepayers, or by Scottish ratepayers. E(LF) made it clear to the Secretary of State for Scotland that there was no question of the two former courses.

We understand that Mr Younger is now reconciled to a higher Scottish non-domestic rate, although the Green Paper (paragraph 8.29) is not explicit on this.

Not so -
see page
D+E.

Interaction with the Housing Benefit Scheme

11. The Secretary of State for Social Services has expressed concern about the increased Housing Benefit (HB) case load which will follow from the introduction of the community charge, and proposed at the last meeting of E(LF) that the community charge should be excluded from the HB scheme. There are some difficulties with this proposal, and he and the Secretary of State for the Environment were invited to consider the interaction of the proposals further. In the meantime the Green Paper assumes in the exemplifications that the 20 per cent contribution rule will apply (ie in line with the Social



Security White Paper), while saying that the detailed design of assistance schemes will need consideration (Annex J, paragraphs J.39-43). This should not require detailed discussion.

Capital Expenditure

12. The Green Paper also sets out (in Chapter 6) alternatives for the reform of the capital control system in England and Wales. There have already been discussions with the local authority associations on these issues, which will have much less impact on the public than the proposals for the community charge. The Secretary of State for the Environment is therefore proposing a shorter consultation period, so that the option of legislating next year may be kept open.

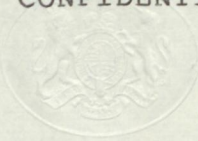
Education Funding

13. You will wish to note what paragraphs 1.51-1.52 of the draft Green Paper say about the arguments against central funding of education. The general argument being developed at this point calls for a rebuttal of the idea of central Government taking over a large field of spending from local authorities, and education is the obvious example. Paragraph 4.47 presents the case for a possible extension of specific grants for education. The intention has been not to limit the realistic room for manoeuvre in MISC 122.

HANDLING

14. You will wish to ask the Secretary of State for the Environment to introduce his paper. The Secretaries of State for Scotland and for Wales will wish to comment, as no doubt will the Chancellor of the Exchequer, the Lord President of the Council, the Chancellor of the Duchy of Lancaster, the Home Secretary and the Secretary of State for Education and Science among others.

15. On a minor point, you will wish to ask the Secretary of State for the Environment over whose names the foreword might



appear. It would seem appropriate for it to be in the name of the three territorial Ministers involved.

CONCLUSIONS

15. You will wish to reach decisions:

- i. to endorse the principle of local ^{democratic responsible} ~~accountability~~ and the introduction of the community charge as the corner stones of future policy;
- ii. to confirm whether a shorter consultation period for Scotland is acceptable; - Opened. 1 April 1986
3rd Year
- iii. to agree on the publication of the Green Paper, provisionally on 28 January.

RA

ROBERT ARMSTRONG

8 January 1986

PRIME MINISTER

I am not clear whether you decided in favour or against a presentation to Cabinet next Thursday about the iniquities of the rating system. (You were concerned that too extensive a discussion of this would give an opportunity for sceptics to question the need for any reform at all.)

You toyed with the idea of a presentation before Cabinet starts, i.e. in effect starting 15 minutes early, at 0945, have the presentation on rates and then go into parliamentary affairs, foreign affairs, community affairs and then the Green Paper. I think this would look odd, and I am not clear whether you dismissed it.

Agree that Mr Baker should describe the problems of rates when he introduces his paper?

DNS

DAVID NORGROVE

3 January 1986

Yes - I think that is
the only course at Cabinet.
and we can't meet early for a presentation.
Others ^(I think) would want to do the same.
mf

CONFIDENTIAL

CCBG



Chancellor of the Duchy of Lancaster

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6 January 1986

Robin Young Esq
Principal Private Secretary
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Ronnie Winter 2

JHS
7/11

Dear Robin,

GREEN PAPER ON LOCAL GOVERNMENT FINANCE

The Chancellor of the Duchy was interested to see David Norgrove's letter to you of 31 December, recording your Secretary of State's discussion with the Prime Minister.

The Chancellor has commented that, while he accepts the importance of rebutting criticisms of the kind mentioned by your Secretary of State, he would emphasise the need to take the argument to those offering criticisms; for example by challenging them to present their alternative, while illustrating the arbitrary, unfair and indefensible nature of the current rating system which these new proposals are to replace, and how unworkable and burdensome (particularly in economic terms) would be a local income tax. In effect, the purpose would be to expose the inadequacies of the position on local government finance of the Government's opponents.

I am copying this letter to David Norgrove, the private secretaries to members of E(LF) and to Michael Stark (Cabinet Office).

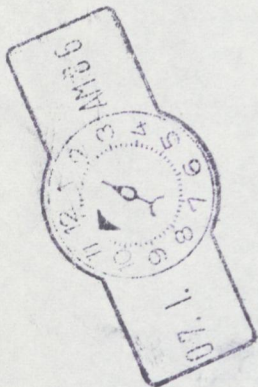
Yours Sincerely,
Andrew Lansley

ANDREW LANSLEY
Private Secretary

LOCAL GOVT

RATING

PT 4



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MR. INGHAM

RATES

Suggested line to take is below.

David Norgrove

9 January 1986

POINTS TO MAKE ON RATES

i) Government recognises the very strong case for change. Present system widely recognised to be over-complicated, unfair and increasingly unworkable.

ii) The Government are firmly committed to reform.

iii) The proposals in the Green Paper are radical; the result of extensive discussion.

iv) Designed to strengthen local democracy, creating stronger links between local authorities and local electors, with fair treatment for business.

v) The Green Paper will be published around the end of the month. Consultation will be extensive and genuine. Final decisions when results are known.

vi) Timing of legislation in England and Wales is not yet decided.

vii) Pressures for reform are even greater in Scotland than England and Wales (Scottish revaluation). Legislation for Scotland may be taken forward more quickly, though again results of consultation will be taken into account.

viii) Emphasise again that Government committed to reform, and belief that proposals offer a practicable alternative to the present discredited system.